The Ultimate Guide To Optimizing Retail Operations In 2022

Contents

Operations is the central nervous system of your business. It's where everything comes together: inventory, transactions, demand generation, marketing, communications, finance, and more.

And when a business operates effectively, growth, profitability, and scale become measurable, manageable factors. For one, it's easier to free up capital and harness cash when running smoothly. But surprises and emergencies also become easier to handle, so your business gets more from windfalls and upticks in demand.

As we head into 2022 and look back on the supply chain fiascos that defined 2021 for direct-to-consumer (DTC) businesses, it's tempting to focus on those issues in particular. But there's more to operations than bracing for calamity and navigating uncertain times.

**No matter how the winds blow,
the fundamentals of operations remain the same.**

In this guide, we'll outline those fundamentals. These are the principles, strategies, and tools that will level up your operations and grow your business —wherever you are in your business journey.

Operations 101

Simply put, "operations" is a catch-all term for the activities behind business growth. And what it entails is subject to change as you grow and scale your business.

A DTC ecommerce startup testing the waters with a single product, for example, will have much simpler operations than a growing DTC brand doing $2 million in annual sales.

That said, the fundamentals don't change.

When talking about improving operations, we focus on the people & processes that drive growth and real commercial value.

That's because no matter what stage your business is in, operations will always come down to those fundamentals.

Start by finding product-market fit

Before optimizing your operations, you need to make sure you have product-market fit (meaning people want what you're selling). This is true for new brands and existing brands launching new products. If you don't have product-market fit or don't know what that fit is, put this guide down and focus on finding that first.

Yikes! I don't have product-market fit—what should I do?

Research. Make assumptions, then test those assumptions. And be prepared to go back to square one if your assumptions turn out to be wrong. Unfortunately, there are no hacks or shortcuts here. For more on finding product-market fit as a DTC brand, check out this post.

Growth

Growth is the ultimate goal of operations. Of course, you also have more granular and specific short- and medium-term goals. But big picture operations is about using your available resources to achieve and sustain growth.

So, ask what you're enabling. If growth is your big-picture goal, how are your operational logistics helping you grow? Businesses need to factor in all these logistics to get an answer.

Every business is going to have different short- and medium-term goals. But you need to know what those smaller goals are optimizing for. Knowing this makes it easier to drive growth today and in the future.

Money is everywhere

In the past few years, DTC has been exploding.

During the pandemic, ecommerce experienced five years of growth in less than five months.

Salaries went up industry-wide, including in adjacent fields like tech and marketing. And due to low-interest rates and other macroeconomic trends, capital has become easier to access.

This flips the question from "how do you access capital" to "what do you do with the capital you access?"

Don't "operate against yourself"

If your unit economics are off, you're going to spend more to earn every dollar. As a result, your brand isn't as profitable. Mark Riskowitz, the head of operations at Caraway, a fast-growing DTC brand in the home goods space, calls this "operating against yourself."

The worst part? Most companies "operating against themselves" don't know they are doing it. Or if they do, they don't know how to fix it, making it an expensive mistake.

How much did that dollar cost you?

In other words, how much is your cost of goods sold (COGS)?

COGS = beginning inventory + purchases - ending inventory

That's how much it costs you to earn your revenue. The lower this number, the less you'll have to spend to grow.

How you grow matters

Each DTC brand goes on its own growth journey. And it isn't the particular path that gets you there that matters; it's why you're going there in the first place.

When a brand understands what stage they are in and why they need to grow, they can define what this growth looks like (or the next step in the journey). From there, they can easily decide how to invest their capital to get there.

Generally speaking, there are two options for growing your business: top-line growth or bottom figures growth. Top-line growth refers to increasing the brand's gross revenue or sales. Meanwhile, bottom figures growth refers to increasing the company's net income.

More often than not, brands opt for top-line growth. And there are a few options for making this happen:

- Invest your available capital to grow better, faster.
- Use the funds to create flexibility and safety margins within the business.
- Pursue opportunities for innovation and make risky bets.
- Take part of your business profits and return them to shareholders (if you're a publicly-traded company).

In a small LinkedIn poll, we asked 67 brands which methods they're currently using to grow their top-line revenue. Nearly half said they were or wanted to grow by investing capital in developing new products.

For those brands, growth would look very different from those focusing on using funds to create flexibility and increase margins. That's why knowing why you want to grow makes figuring out how to do it operationally and actually achieving that goal much easier.

But with that said, not all growth is good growth. Here at Cogsy, we're huge proponents of growing better, not just bigger. And, knowing the why behind your brand's goals is the first step toward making that happen.

Optimize for fulfillment

Growth comes with costs that should be considered when demand planning and ordering inventory.

As retail brands grow, their leadership teams face the difficult challenge of finding the best way to generate more demand for their products, then fulfilling that demand.

Marketing can do a great job generating demand, but if ops and fulfillment are off, you won't turn that demand into growth.

Different stages, different strategies

Operational priorities are going to vary as your business matures. Here are some guiding principles to keep in mind as your business grows and scales.

Launching: $0 - $250,000 annual revenue

In the early stages of growing your business, it's all about seeing what works. Now is the time to take risks. It is also the time to focus on the core competencies of omnichannel retail.

Test assumptions. Prioritize establishing processes for getting information and communicating that information. After all, that's what allows you to take those risks and make the bold moves that might pay off big.

In other words, at this stage, take advantage of being small and agile rather than fixating on growth at any cost.

Do things that don't scale. That's what will make you stand out.

Growing: $250,000 - $2,000,000 annual revenue

Once something works, it has to be managed. And while getting from zero to one is hard, operations tend to be simpler in the early stages of growth. As you inject cash, be it through revenue or funding, you're consequently going to stress test all your systems and processes.

At this stage, operations efficiency is make-or-break. And optimizing those operations becomes the most important thing.

Just keep in mind:

- Risks can still pay off, but you need a disciplined, calculated approach to risk-taking and measuring results.
- You must understand why something is working at this stage. Take the time to identify which levers move your business.
- Spend available capital (including venture capital and working capital) wisely. Improving your products is more important than pure margin.
- Use margin to create a financial cushion for unforeseen events. Still early in the game, you are bound to face many new obstacles you never saw coming.

Scaling: $2,000,000+ annual revenue

Once you reach a particular growth stage—it'll be slightly different for every business—operations become more about the macro logistics, or how the overall aspects and workings of operations work together.

And the main challenge for improving your operations as you grow from DTC underdog to household name is avoiding large-scale inefficiency.

At this point, the economics and metrics of operations haven't changed. If your COGS and margins work against you, success will amplify that effect, and inefficiencies will scale with your brand.

So, don't take operations for granted. Many companies reach this stage with surprisingly dysfunctional operations then hit a growth ceiling. But when you optimize your operations, you will improve your margins while giving yourself a competitive advantage.

Improving inventory management

For DTC brands, inventory is where you can really improve your operations. But as the origin of the brand's revenue, inventory is also where costly operational snags typically originate.

To avoid these snags, your inventory planning and management should take into consideration:

- **Your current inventory levels.**

  If you don't know how many units of each SKU you have in stock at a given time, you could end up with a fulfillment disaster. But by constantly monitoring inventory levels in real-time, you can proactively avoid the situation by ordering the right amount of inventory at the right time.

- **Supplier's production schedule and lead times.**

  Meaning, how long it takes to source each product. Each of your manufacturers produces and ships at different cadences. So, you'll need to consider their schedules when planning your inventory needs. This is particularly important when preparing for big marketing promotions or retail holidays like Black Friday and Cyber Monday.

- **Your inventory forecasts.**

  These forecasts predict how much product will sell in the coming months. And while nobody can tell the future, the closer you get to predicting customer demand correctly, the easier it is to fulfill those future orders.

- **Predicted changes to the supply chain or global trends.**

  Especially ones that that might affect your supplier's production schedule. Proactively looking for these hiccups (specifically related to manufacturer and shipping routes) will help mitigate disruption risks. For example, if you see these risks early enough, you can diversify your manufacturers or find local alternatives if it makes sense financially.

The two most important aspects of each of these inventory considerations are real-time data and accurate forecasting.

Real-time data feeds more accurate forecasts.

Bottom-up inventory planning

Nobody can predict the future, but you want to predict customer demand as accurately as possible when it comes to inventory planning.

In other words, you want to plan inventory from the bottom up. This approach starts by considering how much stock you need and your supplier's production schedules. Then, cautiously layers key growth assumptions onto this solid foundation.

As a result, the inventory forecast becomes much more accurate than a top-down approach which assumes inventory forecasting should be a multiplier of revenue growth.

A top-down approach, by contrast, chases inventory by matching inventory plans to revenue growth rather than the other way around. The problem with this strategy is that it fails to optimize for unit economics.

And while a bottom-up forecast might be off by one unit, a top-down forecast might be off by 50 units (a much more expensive mistake). This can quickly lead to higher COGS and the "operating against yourself" phenomenon.

So, say that a footwear retailer is forecasting this coming November, and they're using the bottom-up approach. It might look like this:

- The brand's inventory management software forecasts they'll need 503 units in November. The team confirms that the supplier can deliver the required units.
- The team has recently been experiencing a month-over-month 8.78% growth rate. So, they adjust the forecast accordingly, from 503 units to 518 units.
- On top of that, the team recognizes that November is a massive month thanks to Black Friday and Cyber Monday. They layer in a multiplier of 3 and adjust the forecasted units from 518 to 606 total units to account for that.

As a result, the footwear brand has almost exactly the number of units it needs to meet customer demand—no more, no less. So, it's not unnecessarily tying up capital that could otherwise be put toward other initiatives (like the top-down approach would).

How? Because the bottom-up approach is built around operational excellence. It factors in all operational and logistical factors, then allows for adjustments to match real-world considerations like seasonality and supply issues.

5 inventory management best practices

Similar to forecasting, inventory management should prioritize simplicity and accuracy. Let’s walk through five ways DTC brands can do that.

1. Establish one source of truth

Working with too many systems is a recipe for confusion and flawed assumptions. By synthesizing all your data in one centralized system (like Cogsy or a similar product), you know your data is accurate and up-to-date. And rather than referencing (possibly contradicting) data from several tools, you have one source of truth to inform decisions.

2. Analyze each channel separately

Your inventory forecasting is only as good as the data from each channel. That's because different channels have different demand curves and should be treated separately.

For example, you need to look at the sell-through rate (how much of the inventory a wholesaler buys actually sells) to accurately forecast wholesale orders. This data point helps you determine actual customer demand for this channel. Just looking at sales alone (best practice for other channels like organic) isn't helpful.

Because of this, you should avoid homogenizing your data by lumping channels together. Admittedly, it can be difficult for some channels, like wholesale, to get the data needed to fully understand the demand curve. But it's well worth the extra effort.

3. Never change SKU IDs

Getting this right early on will save you headaches down the road. By keeping SKU IDs consistent, you ensure that the data associated with each product is connected throughout your system. But if you change SKU IDs, your forecasting system will treat each ID as its own product. As a result, your data ends up inadvertently disconnected, throwing off your forecast's accuracy.

4. Prevent human error

Most retail brands rely on spreadsheets to manage inventory planning. But one inadvertent finger flick can skew data exponentially. And the more teammates you have working on it, the more those errors multiply, throwing off your forecast accuracy.

The simplest way to fix this? By relying on real-time synchronized data with a data source instead. This essentially eliminates human error.

Communicating with customers is at the heart of operations, not just marketing.

5. Simplify communications and sources of information

Communicating with customers is at the heart of operations, not just marketing. So, get clear on how you use your communication platforms to fulfill different functions.

Take post-purchase updates, for example. Do you communicate those updates via email or SMS? Who owns those communications? Typically, these updates fall under marketing because they often drive cross-selling and upselling functions. But they also reduce refunds requests, which is an operational factor.

So, how does your communication strategy account for this overlap and keep everyone (marketing, operations, and customers) updated?

As we mentioned earlier, not all growth is good growth. Here at Cogsy, we're huge proponents of growing better, not just bigger. And, knowing the why behind your brand's goals is the first step toward making that happen.

Sell on backorder to drive revenue from out of stock products

During the 2021 holiday season, both retailers and customers dealt with out-of-stock items. And it was frustrating all around.

Some retailers used email notifications to alert customers when an item was back in stock. But these notifications have an abysmal 5-15% conversion rate, meaning the customers likely found what they needed elsewhere.

Enter selling on backorder.

Instead of an out-of-stock notification, use tools like Cogsy to display an estimated shipping date for back-ordered items. This way, you can sell on backorder and significantly improve conversion rates, with only a negligible drop in conversion rate compared to selling the products in stock.

Planning and allowing for surprises

Of course, no 2022 operations guide would be complete without mentioning COVID-19 and last year's supply chain fiascos...

And while we don't want to downplay or dismiss these factors, we do want to de-emphasize the impact of specific events in this guide and focus on the principles that can help you prepare for the unexpected in general.

Here are a few ways you can do that.

Prioritize process over plans

Preparing for the unexpected is a way of operating, not a one-size-fits-all checklist. The key is to learn from challenging times and internalize those lessons into your everyday operations.

For example, with the bottom-up approach to inventory, you remain flexible because you have already considered changes in customer demand and variable costs. So, this strategy provides a process that can adjust to external factors.

Free up cash to create a safety margin

Cash flow is the most critical piece to a business's survival. As Cogsy investor Manuel Koser recently said: "If you have access to capital, you have an infinite amount of time to figure out the other challenges within the business."

When businesses close, the main reason is running out of cash. In other words, their business model or product quality was not at fault; it was simply a matter of cash flow.

In fact, studies identified "lack of capital" as the top reason businesses closed in 2021. To avoid this fate, businesses should create a safety margin of cash reserves.

These reserves ease anxiety among founders and team members alike amid the face of uncertainty, so you're not constantly scrambling to put out fires. Instead, safety margins create bandwidth to focus on optimizing your operations and growing the business.

Prepare for wins and windfalls

But preparation isn't just saving up for rainy days. You also need to prepare for the good surprises.

Think about it this way--when your brand finds a profitable opportunity, it can be a one-off win or a catalyst for sustained growth. It all depends on how you manage them. And the best way to prepare for these opportunities is by optimizing your operations so you make the most of them when they happen.

Say that you've instated lean operations, and you only order the inventory you need (and no more). Naturally, you'll also free up working capital, meaning you'll be in a position to capitalize on a good opportunity that comes your way, like:

- A one-off campaign. A story makes headlines, and you find yourself in the right place at the right time to write yourself into the narrative. In this instance, your brand could enjoy a nice halo effect, but you have to act fast.
- Hiring rare talent. Imagine a great candidate starts looking for a new job after you spend months trying to poach them. Wouldn't it be nice to immediately offer them an attractive compensation package, so they'll join your team?

These are just two examples. But operational excellence gives you the agility to make these types of opportunistic decisions in real-time.

Tools

Operational excellence involves having the right tech stack. So, we took the liberty to break down what types of ops tools you need, how to find a good one, and recommend our favorites.

What tools do you need for successful ops?

Generally speaking, every modern retail brand needs tools to make managing nine core functions easier: the brand's finances, supply chain, order fulfillment, packaging, inventory, marketing, customer retention, partnerships, and customer interactions. And the tech stack might look something like this:

Financial management

Keeping up with your company's finances feels like running in circles. There's everything from managing invoices to figuring out cash flow to day-to-day accounting. Luckily, financial management tools can automate these processes and free up tons of your team's time.

For example:

- Settle streamlines your finances by crediting capital for inventory. That way, you can create a cash runway for other growth initiatives.
- Xero automates your company's bookkeeping and accounting functions (like claiming expenses, managing payroll, and sending invoice reminders).

Supply chain management

A simple supply chain error could cost your business thousands of dollars and a lot of unhappy customers. Luckily, you can easily avoid these expensive mistakes altogether with supply management tools. All while lowering end-to-end costs and optimizing your supply chain.

For example:

- Anvyl centralizes your supply chain data, streamlines communications with suppliers, and identifies potential risks, so you get orders on time and at cost.
- Flexport is a freight forwarder that provides transparency into what's happening with your in-transit inventory, thanks to real-time shipment tracking and landing cost reports.

Order fulfillment

Once an order is placed, you want to get it to the customer as soon as possible. For one, this leads to happier customers who are more likely to buy again from you. But it also lowers the unit's inventory holding costs.

And an order fulfillment tool can help make this happen (from processing to packing to shipping orders) as efficiently as possible.

For example:

- ShipBob is a third-party logistics provider (3PL) that fulfills ecommerce orders for DTC orders worldwide via 2-day express shipping.
- Narvar optimizes the post-purchase experience by communicating clear delivery date expectations, providing real-time tracking, and offering headache-free returns.

- Rush automatically syncs tracking information to Shopify orders and notifies brands and customers of any order status updates.
- Flexe matches unused warehouse space with retailers that need it, so retailers only pay for storage space they actually use.
- SPS Commerce provides visibility into the supply chain by centralizing data retailers need from trading partners, like item availability and sales analytics.
- DiCentral eliminates redundant manual data entry by centralizing fulfillment channels data and automating cross-channel processes.
- Boomi identifies opportunities where brands can integrate their data sources, automate workflows, and optimize their customer journey.

Packaging

Shipping materials isn't just a boring brown box for ecommerce brands. It's a tangible extension of the online brand (for example, clean beauty brands can use sustainable materials to bring their values to life).

And getting it right often means designing the packaging, finding a supplier, and ensuring you have enough boxes on-hand to fulfill customer orders.

Luckily, packaging tools like Lumi provide an end-to-end solution for these packaging supply chain needs. All while cutting out the middlemen.

Inventory management

No retailer wants to go out of stock. But stockouts happen all the time. When they do, 21-41% of customers will actually purchase the product from another store instead.

So, how do you avoid stockouts? By keeping the right amount of stock on hand. And that starts with knowing your current stock levels, sales trends, and restocking lead times. That's where an inventory management system comes into play.

For example:

- Skubana automates the order management process and centralizes stock level data across multiple channels. Just as Cin7 does for mid-sized brands and Locate does for enterprise companies.
- Cogsy empowers modern retail brands to operate proactively by turning static inventory data into smarter actions.

Marketing

With an over-crowded marketplace, ecommerce brands face two massive marketing challenges: attracting new customers and staying top of mind for the ones you've got.

To tackle both, you need to show up where your customers are already at. And the right marketing tools can help you do that–without spending eye-watering amounts on paid ads.

For example:

- Tools like Omnisend and Klaviyo help retail brands communicate directly with customers using targeted email campaigns and SMS messaging.

- Yotpo simplifies how brands collect user-generated content (like reviews and customer photos) and build loyalty programs.
- Rise.ai manages customer re-engagement activities via e-gift cards, loyalty cards, referral, and rewards programs.

Customer retention

Increasing customer retention dramatically increases revenue. That's because return customers are likely to spend 67% more than first-timers.
In other words, it literally pays to get people to shop with your brand again. And customer retention tools make re-engaging past customers easier than ever.

For example:

- Lifetimely identifies your biggest opportunities to increase retention using month-to-month lifetime value projections and customer behavior analyses.
- Repeat adds a "Buy again" button to customer emails and SMS messages to provide a faster, personalized reordering experience.

Partnership

Customer acquisition cost (CAC) has increased by roughly 60% for DTC brands in the past five years. And while it's no secret that marketing partnerships can combat this rising CAC, securing and maintaining these mutually beneficial relationships can be costly (both in hours and dollars).

But cutting-edge partnership tools that do this work for you are starting to gain traction. As a result, they're producing a passive income source for retail brands.

For example, Co-op Commerce provides a three-way mutually beneficial post-purchase experience where brands can boost each other's products to customers.

Customer interactions

Most customer experience teams waste hours answering the same questions. What are the product's specs? How do I register the warranty? Do I get a discount if I reorder the same product?

And if you want these interactions to be headache-free, give customers as many of these answers as you can upfront. That way, they don't have to reach out to your team over every little thing.

For example, Brij makes everything a customer needs to know about a product accessible via a QR code. This includes care instructions, product details, warranty information, how to rebuy it, and similar product offerings.

How to choose the best ops management tools

Not seeing an ops management tool you need on this list? Then, use these two best practices to vet the right options for your business.

Scale what already works manually

First and foremost, operations is a human activity.

Meaning, operational excellence is about automating the manual processes that work really well in order to scale those functions.

But to do this, you need to first run your operational processes manually. That way, you can find out what works, cut what doesn't, and invest in scaling efficiency. Why? Because, to put it simply, you can't solve deep operational flaws with technological band-aids.

Understand the limits of technology

At the end of the day, the purpose of operational management tools is to streamline your business' operations. Not to create an over-reliance on software.

That means your tools should solve problems, not create them. They should simplify your workflows, not complicate them. If a tool doesn't do this, it's not worth adding to your tech stack. Period.

Troubleshooting common issues

It's impossible to plan for every eventuality. But you can avoid the most common operational pitfalls by learning from the mistakes other retail brands have already made.

To do this, we've collected the four biggest risks we continuously see ecommerce brands run into. And we outlined the proven strategies top brands use to avoid each one.

Negotiating better terms with manufacturers

Manufacturers are central to any retail brand's strategy. They produce every SKU sold, and without them, you can't hope to fulfill your customer's orders.

If you're like most retail brands, you probably dream of improving your relationship with your manufacturers. That way, you can get better rates that directly improve your bottom line. But before you attempt to negotiate better terms, consider the manufacturer's business first.

Like any other business, manufacturers do whatever makes sense to optimize their long-term viability. Usually, this depends on their production and size order. For example, implementing minimum order quantity (MOQ) policies ensures economies of scale and keeps their unit economics in good standing.

So, when negotiating for better manufacturing rates and terms, you'll get farther if you understand what contributes to their business' viability.

What contributes to a manufacturer’s viability?

Generally, manufacturers value predictability, especially regarding order size and frequency. If you can offer that, manufacturers will be more likely to negotiate with you.

But keep in mind that manufacturers often discriminate against their customers—better customers get better service and terms. And the best customers are those that reliably do four things:

1. Offer predictability.
2. Place higher value orders.
3. Collaborate seamlessly.
4. Pay on time.

If you're not sure where you stand with your manufacturer, air on the side that you can always be better. And for most brands, communicating purchase order approximate size and timings is the easiest place to improve.

How to improve the relationship

By telling your manufacturers approximately when you'll put in your next PO and how big it should be, your manufacturer can ensure availability in their production schedule. (Plus, your team can plan activities like marketing campaigns because you'll know what's coming and when.)

In this sense, brands provide manufacturers the predictability they want with minimal commitment. Often, this is the closest a manufacturer gets to recurring revenue, even 12 months out. So, you can then leverage this predictability to negotiate better rates based on the total minimum volume you'll be ordering within the year.

However, even in the best cases, you typically can't negotiate MOQs down. That's because manufacturers have strict limits on the minimum quantities their machines can produce.

But if you're in good standing with their manufacturer, you can sometimes earn the option to place smaller rush purchase orders. This lets you fulfill products faster and provides a massive advantage over competitors, especially when supply chains are disrupted, or customer demand surges unexpectedly.

Equipping customer-facing teams with real-time shipping info

All of your brand's internal teams benefit from having data at their fingertips. Unfortunately, customer-facing teams don't always have access to the information customers are actually inquiring about.

For example, when products go out of stock, one of the most common questions customer-facing teams get is "when will it be back?"

But to answer this question, these teams need access to your incoming purchase orders and real-time tracking on when those shipments will arrive. Otherwise, they'll leave customers with frustrating half-answer or completely wrong information.

Tools that provide real-time shipping information

Many retail brands lean on end-to-end purchasing platforms or freight-forwarding solutions to equip customer-facing teams with the data to prevent these issues.

For example, Anvyl is an end-to-end purchasing platform that provides visibility into the estimated delivery date for each purchase order.

However, this tool does not automate how this information gets to customer-facing teams. So, this data source needs to be updated regularly to ensure accuracy, and unfortunately, this is a task that needs to be executed by a human. That means internal teams or manufacturers themselves must be relied on to keep data up-to-date.

Similarly, Flexport is a modern freight forwarding solution that provides real-time tracking data. That way, retail brands have timely information on each shipping container.

Unlike Anvyl, Flexport's data does not need to be manually updated. However, it does need to be regularly reviewed by your internal team to ensure all shipping information and purchase order ETAs are correct.

While not perfect solutions, both tools prove especially useful for ecommerce brands. That's because they align your team with a synced data source for when inventory will arrive at your warehouses. And as a result, they empower your customer-facing teams to provide better experiences.

Cleaning up data in inventory systems

As we mentioned earlier, retail brands need a single source of truth for their on-hand inventory. But this data source is only helpful if it is kept clean and up-to-date. If not, teams can't make informed and proactive decisions to grow the brand.

With that said, the data should ideally clean itself instead of relying on the team to keep it updated. This removes room for human error. And it provides the most accurate real-time data on what's happening within the business and how specific campaigns are performing.

Prefer to do this manually?

If your brand decides, however, to take on this task manually, stocktaking will be the only way to ensure your record system is up to date. This requires regularly counting and recording how much product your brand holds at that specific point in time.

Then, this data needs to be verified using a systemized process to ensure accuracy. This process should include various employees recounting the stock and cross-checking the data at a set cadence.

Admittedly, manually cleaning your inventory data can be very intensive, especially for larger retailers, with a large margin for error.

For example, product returns can sometimes account for ghost inventory (stock on its way back to you that won't officially be counted until it's been received). Some of the ghost inventory will be resellable once it's accounted for. But some will not.

This consideration may not be as important for brands that experience a low percentage of returns. But this can amount to significant issues for retail brands whose customers tend to purchase various sizes of one SKU only to return the ones that don't fit. In these cases, you must implement another record system to account for those returns and input them into the data source.

Synchronizing data across multiple channels

Similarly, multichannel retail brands (those that sell on their own website, via other retailers like Amazon, and so on) must have synchronized data for inventory levels across each channel. Otherwise, there's no way to know which source is the truth.

Luckily, tools like Trunk Inventory can help your retail brands synchronize this data. That way, multichannel retailers can have a single source of truth that empowers them to make better, more proactive decisions.

Take historical inventory levels into account

If you want to make more strategic decisions, take your historical inventory levels into account. This will add depth to your past sales data.

When you consider these levels, your inventory forecasts become more accurate, and you can optimize purchase orders to only order what will actually sell. No more, no less.

For example, say there's a sudden dropoff in sales for a specific product. Without historical data, teams would assume this means there was a natural decline in customer demand.

But what if that's not true? Instead, the historical data might show a stockout that correlates with this sudden dropoff in sales. This means, customers still wanted to buy the product, but there was no product to sell them.

However, operations teams can't know this without historical inventory levels because the data alone doesn't truly represent customer demand. As a result, this can skew future forecasts, leading teams to underestimate customer demand and ultimately more stockouts.

Never change SKU IDs

Similar to a lack of historical data, customer demand can be misconstrued when you change SKU IDs. (We can’t emphasize this enough!)

For example, if you sell Product A using SKU ID "product-a," but later change it to SKU ID "product-ab," the data disconnects. And the inventory forecasting system considers these two SKU IDs as two different products (essentially, Product A and Product B).

When a product's data is inadvertently disconnected in this way, the system breaks the past sales data into two isolated datasets. And it throws off the forecast, losing accuracy.

There are different forecasting methods to synthesize these now-separate data sets. But it becomes difficult to connect both streams to get the complete picture and produce an optimal forecast.

Without this complete picture of historical demand, you can't create even a semi-accurate forecast of future demand.

Luckily, this headache can be easily avoided by not changing SKU IDs on a product. That way, all versions of the same product are always linked, and internal teams and forecasting software can clearly understand the product's past performance.

Juggling multichannel operations

Today, many retail brands go to market using various channels. Historically, this meant selling products through bigger retailers or wholesalers (both great options for growth). But modern retailers might sell on other marketplaces like Amazon, in addition to selling on their proprietary site.

Analyze these demand curves separately

In multichannel operations, each channel will have its own distinct demand curve, which should be analyzed separately.

For example, say you're comparing DTC to wholesale. These channels have radically different intervals at which products are ordered.

When you analyze different channels together, data seems homogeneous. This means that teams might see spikes and fluctuations in sales trends and falsely interpret them as seasonality. In reality, this may indicate periodic wholesale orders.

By analyzing each channel separately, you normalize those demand curves. That way, they don't skew your inventory forecasts or the business's cash flow.

For wholesale channels, use the sell-through rate

Regarding wholesale orders, the one metric that positively influences forecast accuracy is the sell-through rate (how much of the inventory a brand sends a wholesaler actually gets sold).

As mentioned earlier, actual customer demand drives forecast accuracy. Working with wholesale, the sell-through rate provides your brand the data to determine that actual customer demand.

For example, if a brand sells a 10,000-unit replenishment to a wholesaler every quarter, that data isn't helpful for demand forecasting. Operations teams need to know the sell-through rate, which predicts how much product customers want to buy and how the brand should prepare accordingly.

Admittedly, data on sell-through rates is hard to come by.

That's because it takes time and effort to relay that information from the wholesaler to the brand. As a result, the sell-through rate data is likely outdated, incomplete, incorrect, or costly.

But it's worth pursuing because of how much it improves forecast accuracy.

Operations key terms

Operations can sometimes feel like an alphabet soup of acronyms and abbreviations. To help make sense of it all, here are some of the most important ops terms and equations.

Break-even point (BEP)

Your break-even point (BEP) is when the total revenue generated and costs are equal. In other words, it's the point where your business garners no gains or losses.

Because of this, a break-even point analysis is critical because it tells you how many sales need to happen before you can start making a profit. And it informs your production targets, sales targets, and sales mix.

How to calculate the break-even point:

break-even point = fixed costs / contribution margin

Customer acquisition cost (CAC)

Customer acquisition cost tells you how much you spend to acquire new customers. And it can be calculated by channel or across all channels to gauge marketing effectiveness. The lower the CAC, the more affordable it is for your company to scale up your acquisition efforts.

Retail brands have seen growing CAC in online channels due to privacy updates and increased competition in the past few years. For reference, customer acquisition costs are up nearly 60% from five years ago in the DTC ecommerce space.

How to calculator customer acquisition cost:

customer acquisition cost = total sales and marketing spend / customers acquired

Contribution margin

Contribution margin measures the profitability of a specific product, so you can quantify top-selling products and low-cost products. With it, you can schedule marketing promotions that lean into what's already working (to increase sales) or what's not (to get rid of potential deadstock).

How to calculate contribution margin:

contribution margin = sales revenue – cost to make products

Cost of delivery

Cost of delivery refers to how much you spend to get your products to consumers. This number includes but isn't limited to labor, storage, manufacturing, and shipping costs.

Cost of goods sold (COGS)

Cost of goods sold refers to the direct costs (like product costs and handling) associated with producing a company's product. However, it does not consider indirect operational costs (like warehousing or shipping).

Knowing your COGS is important because it directly affects your gross profit.

How to calculate the cost of goods sold:

Cost of goods sold = beginning inventory + purchases - ending inventory

Customer lifetime value (LTV)

Lifetime value refers to how much money a customer will spend with a company throughout their relationship. And it can be calculated per consumer to identify your best customers or per average customer to predict future profits.

By increasing your customer's LTV, you can boost margins significantly. That's because acquiring a new customer is 5-25x as expensive as retaining an existing one.

How to calculate a customer's lifetime value:

customer lifetime value = lifetime revenue - cost of acquisition

Earnings before interest, taxes, depreciation and amortization (EBITDA)

Earnings before interest, taxes, depreciation and amortization (more commonly referred to by EBITDA) measures a company's overall financial performance. And, in some cases, like mergers and acquisitions, companies will use EBITDA in place of net income to determine valuation.

Gross margin

Gross margin is the amount of money retained after incurring the cost of goods sold. Ideally, you want this margin to be as high as possible to prevent your brand from operating against itself.

How to calculate gross margin:

gross margin = net sales – cost of goods sold

Inventory holding cost

Inventory holding cost refers to the operational costs associated with storing and protecting unsold inventory. For example, storage costs, utilities, insurance, and so on all contribute to inventory holding costs.

Despite popular belief, inventory holding costs are not a flat rate. Generally speaking, the more inventory you have, the higher your inventory holding costs.

To estimate your inventory holding costs, multiply the value of your unsold inventory by 1.3.

Lifetime value to customer acquisition ratio (LTV:CAC)

The lifetime value to customer acquisition cost ratio measures the relationship between customer lifetime value and how much it cost to acquire that customer. And it indicates how effective your company is at getting qualified customers and, as a result, its growth potential.

Typically, you want an LTV: CAC of 3:1 or greater. This means that you acquired really qualified customers for a third or less of what they'll spend long-term with your company.

How to calculate the lifetime value to customer acquisition ratio:

LTV:CAC = lifetime value / customer acquisition cost

Marketing efficiency ratio (MER)

Marketing efficiency ratio indicates how well your culmination marketing efforts have been to date.

Unlike return on ad spend (ROAS), which provides insights on a single channel or campaign, MER looks at the culmination of your marketing efforts across all channels. In other words, when you rely only on ROAS, you might miss the bigger picture.

Because of this, the goal is to keep your marketing efficiency the same or better as you increase ad spend.

How to calculate the marketing efficiency ratio:

marketing efficiency ratio = total marketing revenue / total ad spend

Minimum order quantity (MOQ)

Minimum order quantity is the fewest number of items you can have on a purchase order when buying from your manufacturer. As such, it directly affects the capital needed to order inventory and, consequently, the cash conversion cycle.

Return on ad spend (ROAS)

Unlike the marketing efficiency ratio (MER), which looks at the culmination of your marketing efforts across all channels, RAOS provides a more granular view of specific marketing efforts. In other words, when you rely only on MER, you might miss optimization opportunities.

Because of this, the goal is to keep your return the same or better as you increase ad spend.

How to calculate return on ad spend:

return on ad spend = campaign or channel revenue / campaign or channel ad spend

Revenue per click (RPC)

Revenue per click quantifies how much you make on average per conversion.

And when you have several marketing campaigns running for the same product, it is a good indicator of where revenue is actually coming from. That way, you can shut down ineffective ad campaigns and put more budget into the top-performing campaigns.

How to calculate revenue per click:

revenue per click = total revenue / total clicks

Seller's discretionary earnings (SDE)

Seller's discretionary earnings is a recasting process that determines a business' historical cash flow.

To calculate SDE, take the company's net profits (your year-end income tax return will be the most accurate source). Then, add back expenses, including the owner's salary and benefits, non-cash expenses (like amortization), and non-recurring expenses (like litigations).

SDE gives small businesses a more accurate representation of cash flow because it removes distortions caused by the owner's spending habits.

Value to weight ratio

The value to weight ratio metric tells you your product's monetary value per unit of weight (typically, kilograms)

And you can use this ratio to determine the cost-effectiveness of your cost of delivery.

How to calculate the value to weight ratio:

value to weight ratio = monetary value / product weight

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